International Economics

Kenen Theory (1965) - Peter Bain Kenen

Role of human capital in international trade

Human Capital → education & training of labor force

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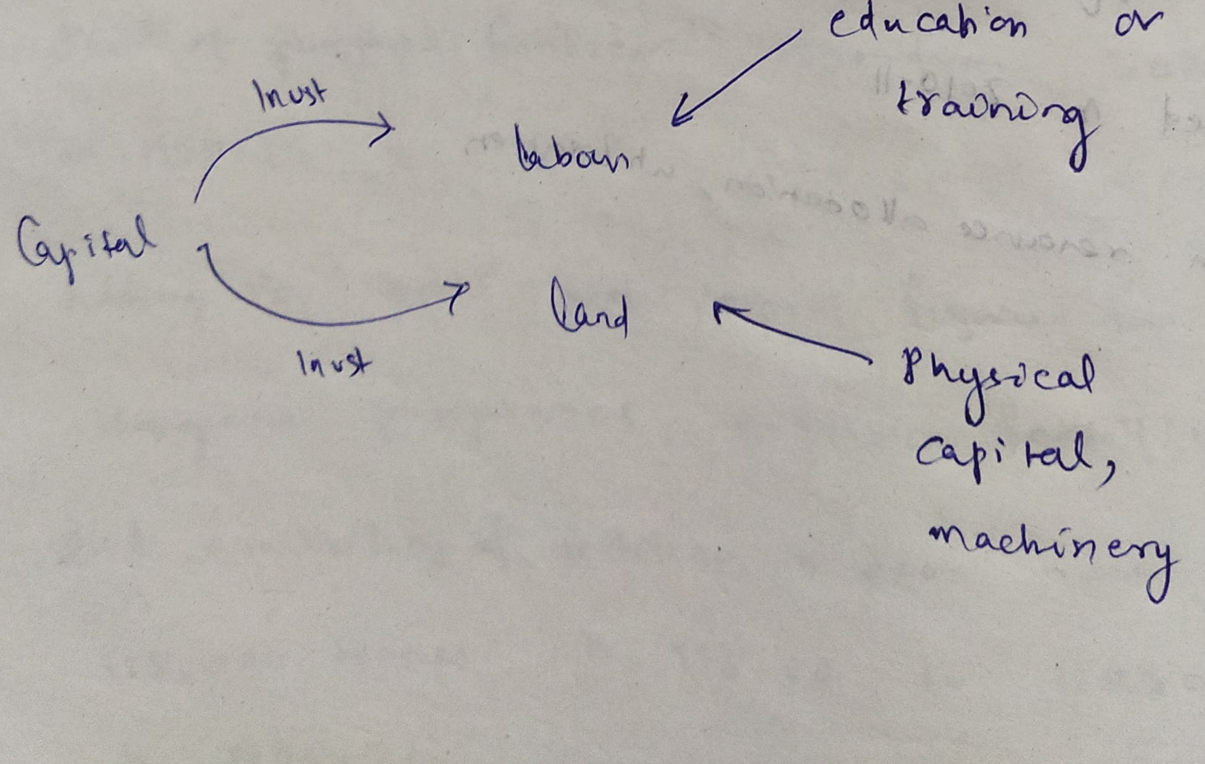
Wage Differential ← Productivity

According to Kenen, land and labor are 2 original factors of prodn. But they cannot be improved upon without the appreciation of capital. Kenen regards capital has homogenous stock of waiting as in H-O model capital.



Why differences?

- limited supplies of capital

- different countries have different productivity frontiers

Kemmen formulates the theory of international trade on his idea of the relation b/w capital and prod^n.

Assumpt^{n}s.

1. unimproved labor and unimproved land are uniform within and b/w countries
2. factors of prod? are mobile within countries
3. Markets are competitive
4. Demand condns are similar
5. Prod^n f^{n}s are identical in two countries.

Country A $\xleftrightarrow{\text{trade}}$ Country B

$\downarrow$

Equalisation of prod^n prices and prices of services from improved labor and improved land.

Term of Trade → Net factor ratios in the 2 countries; the factor being the quantities of improved labor and land

Net factor ratios → initial endowments of the unimproved factor upon the supply of capital and upon the distribution of capital b/w 2 original factors for improving them.

Value of Human Capital involved in US exports and imports computing product by capitalizing the extra income of skilled labor over unskilled workers